Company: **Balfour Beatty**

Conference Title: **Q3 Interim Management Statement 2013**

Presenters: **Andrew McNaughton, Duncan Magrath**

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Operator: Good day and welcome to the Q3 IMS Conference Call. For your information today's conference is being recorded. At this time I would like to turn the conference over to Andrew McNaughton, CEO; and Duncan Magrath, CFO of Balfour Beatty. Please go ahead gentlemen.

Andrew McNaughton: Thank you operator. Good morning everybody and thank you very much for joining our Q3 Interim Management Statement Call this morning. Sorry for the couple of minutes slight delay while we were just waiting for everybody to join the call. If you'd allow me just a few moments what I'd like to do is to make a few observations on the statement this morning before Duncan and I take your questions.

I am pleased to report that we've seen a modest improvement in our order book in the third quarter at constant currency, although there is a small reduction from the £13.9 billion reported earlier to £13.8 billion due to the adverse movement in the US dollar.

Looking at the components, at constant currency, the Professional Services and Support Services order books have remained stable overall. The Construction order book on the other hand has increased slightly with a positive contribution from the US construction and the UK regional businesses offset by weak order intake in our UK major projects business.

Overall trading in the third quarter leads us to believe that we should exceed current market expectations for 2013 on a continuing basis. There are however, some moving parts in this that are worth explaining.

In the Professional Services division, we have seen a further deterioration in the Australia business in both volume and pricing since the time of the half-year results. Moreover, this weakness is likely to continue in the fourth quarter, reducing our expected profits from this division by a further £10 million in 2013.

On the other hand, in the Investments division, we achieved the disposal of two assets with a very favourable outcome. As you know, our 2013 forecast did not assume any gain from disposals in the second half, so as a result of this transaction, we now expect our full year profits in this division to exceed our expectations at the time of the half year results by some £30 million.

For the sake of completeness let me mention that the Construction and Support Services businesses are trading in line with our expectations at the time of the half year results.

The final determining factor in the numbers is the resolution of the contract dispute in Professional Services which we highlighted as a potential benefit to the 2013 profits. On the assumption that we reach settlement in this contract, and the continued good operational delivery in UK construction, we would expect to exceed current market expectations for 2013.

As an update on our financial position, I can add that our average net debt for the first nine months was £345 million, and we still expect to finish the year around £200 million of net debt after collecting the WorkPlace disposal proceeds.

So in conclusion, we have made good progress in the quarter particularly in the Construction division, and every month of good delivery gives us more confidence about the future.

Duncan and I will now take your questions. Over to you operator.

Operator: Certainly. If you would like to ask a question at this time please press *1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered you may remove yourself from the queue by pressing *2. Again that's *1 to ask a question.

We will now take our first question from Gregor Kuglitsch from UBS. Please go ahead.

Gregor Kuglitsch: Hi, good morning. I've got four questions actually. The first one is just on your net debt guidance, obviously I think you were selling assets for another £50 million but you are not changing your net debt guidance, in other words are you not receiving the cash this year or is there some offset on the working capital side perhaps? The second question is on the valuation of the PPPs, I think these two assets you sold at a 73% premium. If my spreadsheet is correct I think the transactions for the last few years were something like 50% above Directors' valuation. I guess the question we're all asking ourselves is how relevant or to what extent the Directors' valuation maybe has to be looked at again given that obviously market transaction values are significantly different? The third question is on construction, obviously you are flagging...I don't know whether you are trying to say something for next year but obviously you are talking about the larger infrastructure works likely to reduce. Could you just maybe give us a sense what the mix impact is on that particularly on the margin side going into 2014? I appreciate that one of the deltas into next year will be the lack of hopefully a further 50 million provision in the regional business but can you just give us a sense on an underlying basis? Does that mean margins should recede? Then finally in Australia obviously you're seeing another £10 million shortfall. Can we sort of thinking about next year, is there more you're doing on the cost side so we can expect a turnaround there or at least some offset to the shortfall that you're seeing in the second half? Thank you.

Duncan Magrath: I will pick up the first two perhaps. In relation to net debt guidance, you're right we've got the additional proceeds but obviously in relation to the other side of it is Australia so we will obviously get less cash coming out of Australia. The working capital was slightly higher in Q3 than I expected. Part of that was an unwind in the UK construction, we were slightly better off at the half year than I thought. Part of it related to the ramp up in the support services contract which was greater than we put in our statement. Now that will unwind I guess to an extent in terms of giving the guidance I've given, I have given myself some leeway that getting back to the level of about £50 million that we thought it would be has given me potentially some wiggle room for the year end. That may happen by the year end or it may happen the other side of the year end, so there's no real huge change. As we say there's a bit of timing in relation to that.

In relation to the valuation of PPPs I think we still wish to emphasise the fact that we are selling the more mature assets that sit within the portfolio. Those will generate the higher gains against the directors' valuation which has got a rate across the portfolio. On the other hand I think in aggregate we do think the value of the portfolio is probably higher than the directors' valuation. It remains a conservative valuation, but I would caution against applying multiples on any single transaction where there can be specific issues that drive a good price across an entire portfolio, so I think those are the first two points.

In terms of construction, Andrew?

Andrew McNaughton: I will take that. I think Gregor your observation is pointed towards the major projects side. We have been flagging for some time that we have seen a reduction in the market in the pipeline of the major infrastructure projects and we have noted in our release today that we see the mix of our business skewing more towards the regional side. Now there's some mixed comments in there of course because what we are seeing is we are currently seeing some pick-up in the pipeline of our regional business largely as a result of early flow over from the recovering house building side, so as we go forward into 2014 we are seeing potentially some pick-up and that we have noted in the scale of our order book at the moment in the regional side. There's no doubt that the major project side is weaker for us at the moment and as I say that's a function of the volume of those major projects out in the pipeline. Your observation around the 50 million that we noted in the first half of the year, you are absolutely right, we are confident that we're not going to see a recurrence of that. I guess the impact of the major project side of it is in 2014 what we will probably see is a drag on the pace at which we will recover in terms of that position and that will purely depend on really the pace at which volumes pick back up into the market as to how that will recover into our regional construction business, so I guess in summary will there be an impact...it's more a drag on the impact of the margin level until we can see a substantial pick-up in the major infrastructure work.

Duncan Magrath: The final question I think was on Australia which was I think the issue for Australia is what we have seen certainly in the last couple of months is a much more difficult pricing environment and I think our view is that's not going to recover quickly and that pricing environment is probably going to last through 2014. Consequently I think any further cost reductions are somewhat difficult to do because there's a volume of business there, you've got a volume of people. We are looking at things like property etc in terms of whether we can make some savings on that but I think you should be assuming that some of that pricing pressure will carry on through 2014. Clearly if the market picks up I think with a reasonably short turnaround this is the type of business that could recover but at the moment I think it's probably safer to assume that that environment will remain through 2014.

Gregor Kuglitsch: Is it safe to say it's mostly on the mining side?

Andrew McNaughton: There's two sides to it. If you split our business down into three main pieces in Australia there's the mining and resources side; there's a sort of utility and government related work which is general works; and then there's a transportation piece. The major impact you're absolutely right is in the resource side. We do have an offsetting factor as we mentioned earlier in the year about the mining project that we are engaged on which again continues to proceed in the way that we expected it to which will be helpful for us in 2014, but the largest impact is on the resource side. We do have some downturn in the utilities side which is again public sector looking at its expenditure as a result of tax receipts and the changes in the public tax receipts that they've got to spend. On the other side our transportation business is solid, it's stable and if you take the positioning of the Australian both federal and state governments, the new parliament is seeking to increase its expenditure on infrastructure and transportation spending. So to Duncan's point there could be a couple of areas that pick up. What we're doing is being cautious at the moment on 2014.

Gregor Kuglitsch: Thank you.

Operator: We will now take our next question from Joe Brent from Liberum. Please go ahead.

Joe Brent: Good morning gentlemen, I have three questions if I may. Firstly on the US could you give us some colour on what's going on there in terms of the quarterly sales momentum and also the order book and how you see the outlook for margins there?

Duncan Magrath: If I just deal with the order book, it's probably worth just picking that up. We talked in a statement about the order book coming down from £13.9 billion to £13.8 billion. There's about 0.3 billion of FX within that movement, so there's actually an underlying improvement within the numbers and generally that's very crudely 0.2 billion in the US and 0.1 billion increase in UK regional with a 0.1 billion reduction in the major projects business, so we are seeing continual progression in the US order book and I think we are obviously confident about the revenue projections for this year and for the next for that business.

Andrew McNaughton: To pick up on the colour as to where it's going Joe, again we have been saying for a number of months and it's always difficult to predict at what point do you see things turn, we are seeing it, the positive nature that we're seeing in the order book again is not something that we're seeing wholesale across the United States, the areas and the states that we note around the half year in things like Florida, Texas, California where we're seeing some pick up and there are certainly some parts of Texas where the activity is extremely high now compared to where it has been in the past, but we do take across the business, we are still coming from a low base. We are confident that we are outperforming others in the market in terms of what we are succeeding in securing work and it's really as a result of actions that we've taken over the last couple of years. I wouldn't like to say that we are seeing margins pick up significantly at the moment and in conversations with the Sureties in the States I think there's an observation that that's reasonably consistent across the piece. I think it just gives you an indicator as to how nascent the recovery is. It's certainly in the construction business it's building-led, whilst we had some good wins in the infrastructure side and we can see the forward pipeline, I still think the position that we're in, we are further advanced in the building side of the business in the United States than it is in civil infrastructure.

Joe Brent: Thank you, and two brief ones perhaps. On the disposal to PFI, could you tell us what the IRRs on those were generally?

Duncan Magrath: It depends. I guess what we have quoted previously is the yield against the cash flows and these are as good if not better than ones we have achieved recently. I don't particularly want to go into details but I think we have traditionally sold them at 6-7% discount rates and these are better than that.

Joe Brent: Fantastic. Finally on the dividend, could you make any comment on whether you are confident that can be held?

Andrew McNaughton: Duncan and I almost had a sweepstake as to how long into the call we'd get before we got the dividend questions, but I know we could rely on you Joe. Our position is absolutely consistent. We gave a viewpoint at the half year as to why we were keeping the interim dividend as we were because we saw confidence into 2013. As we sit right here now nothing has changed that confidence, in fact if anything with the statements we are making today we are confident that we are going to hit 2013's earnings. We have also said around the dividend let's take it on a quarter to quarter basis, let's look forward and see how we're managing to do that. But at this moment in time there's nothing that would change our viewpoint on what we've already said about dividend.

Joe Brent: Thank you very much.

Operator: We will now take our next question from Howard Seymour from Numis. Please go ahead.

Howard Seymour: Good morning gents, a couple from me please. You mentioned there's more regional coming through both in terms of order book, specifically in the UK market. Gregor mentioned it before but I was just wondering if you could sort of talk about cash profile because I would assume that if you do start seeing regional feeding through, it tends to have better cash and earlier cash as well doesn't it than major projects, looking out specifically more obviously to 2014?

Andrew McNaughton: Yes and no Howard is the answer to that. I guess the one thing you can say with the major projects, the substantially large major projects particularly either design and build or the PPP type projects, they tend to have fairly hefty...because of their scale hefty up front and hefty milestone payments, so the cash profiles just in scale are different. So that's the one observation I would make around that. Other than that simply through the burn rate of the nature of the projects than the cash profile, that would be the positive piece around the regional side. So again it's a bit of a mix when you look at where we have been in the past compared to the major projects which have given large volume cash inputs compared to the regional business which has a steadier piece to it. The one thing you can say is if volumes do start to pick up and we are seeing that positively then, there will be a positive cash impact to that.

Howard Seymour: Ok, great. Thank you. The second question is really on the investment side, two parts. One you had previously flagged that you weren't looking to see any more disposals in the second half. I am just wondering why this has happened now? Is it an acceleration of disposals that you were looking to make more likely in 2014?

Andrew McNaughton: I suppose to answer it on quite a general level we have said for quite a long time that we are out in the market constantly in terms of assessing what the appropriate time is to generate the best value for shareholders in any particular asset. We weren't overly intending to do that this half of the year. When we finished the marketing exercise that we were looking at these two assets in particular, as Duncan said just now we have achieved significantly above what we would normally achieve and therefore it seemed to us at the right point in time is the way we could generate the best value for shareholders. That's not a signal of acceleration. It's a signal of what we have said previously is that as a management team it's an excellent lever that we can use to keep focused on individual assets rather than the overall portfolio and shifting it en masse because it allows us to maximise at any point in time what we can generate for those assets, so I wouldn't describe it as an acceleration. I would describe it as maximising the value for the individual assets at any point in time.

Duncan Magrath: Howard, we are leaving guidance in terms of the 40 million gains for next year unchanged.

Howard Seymour: Fine. Just one last question, you mentioned the additional bid costs. Can you say where they're coming through because obviously there's not a lot of PFI out there at the moment for example, specifically again in terms of the investment business?

Duncan Magrath: We are reasonably active on things like student accommodation at the moment. We've got some bid costs in places like Australia where we have looked at some projects. We have also go some bid costs on some of the projects that have been delayed, we are effectively expensing some of those now simply because of the recovery that we will get at financial close, so it's a mixture of things.

Howard Seymour: Ok. Thanks very much.

Operator: We will now take our next question from Andrew Gibb from Investec. Please go ahead.

Andrew Gibb: Morning gents, just a couple from me. Just staying with the sort of mix point in the UK in terms of regional versus large contracts, could you sort of maybe just break out percentage wise in terms of sort of current revenue base and order book at the moment between that regional business please?

Duncan Magrath: We are probably heading towards...I think traditionally we have been somewhere around about 45-45-10% as it were between our regional majors and our engineering services business. That's now flipping towards probably closer to 55-45-10% in terms of its shape and I think that's being to a certain extent mimicked in the order book as well.

Andrew Gibb: Ok, that's great. Thanks. I know you mentioned in your statement sort of conscious of a potential rising costs, could you talk about a bit what you're seeing? Is it London centric at the moment, are you seeing that or is it sort of [*interference*] in terms of the costs?

Duncan Magrath: Sorry, we lost part of the call there.

Andrew Gibb: Just on the input costs, just what you're seeing at the moment. Is it national? Is it a bit more London focused at the moment, just what you're seeing if indeed you are seeing that?

Andrew McNaughton: I think it's partly some bits that we are observing but partly a sort of cautionary note around the cycle and experience if you like as to because at this point in the cycle if we are assuming that we are seeing some increase in volumes which we would signal from the order book coming in that we are, it's at this point in time when we may well see input costs start to rise and so our point is remain vigilant about it. Can you take wholesale across the batch? There will be elements of and there will be elements of the supply chain where prices are starting to rise and some of those are allied to where the house building market is as well, so things like cement costs are beginning to go up. There are other sort of material costs that are starting to feature and utilise quite significantly in housing, things like plasterboard, gypsum, those kinds of things that prices are beginning to nudge up. So those are just early indicators as to we would see those input costs would start to rise. I suppose one of the positive things from an increase in our regional volume is you don't have potentially the long term lock-in on fixed price contracts on large...the very, very large building projects which could span multiple years, so it's a case of remaining vigilant and watching those on a month by month basis.

Andrew Gibb: Sure, great. Just lastly assuming we are now sort of seeing volume beginning to tick up, just expectations now looking into '14, I appreciate you have lots of moving parts and it's difficult, but working capital, if you've got a sort of view on that into next year given the movements we have seen this year?

Andrew McNaughton: I touched on it earlier. I think we have seen the support services, we saw the increase that we predicted, slightly more than we predicted but I think that will come back again. I haven't talked about professional services actually in line with where we expected it to be. I think on the construction side we have started to see working capital inflow coming in the US as we thought we would with the revenue pick-up that we're going to get there. On the UK I believe we've still got a bit further to go in terms of the working capital outflow, so in terms of the underlying 200 million that we talked about I think that's still the case. I think the risks to that partly relate around the UK market, there are further shifts going on and I have no evidence for it yet but just in support services whether there are further utilities putting working capital pressure on...

Andrew Gibb: I was going to say, going forwards should we think in terms of maybe new work around that that there's almost an expectation that contractors are probably going to have to put a bit more working capital up front.

Duncan Magrath: In support services or...?

Andrew Gibb: I suppose a bit around things like National Grid and the utilities side, but yes, generally I suppose around the services side?

Duncan Magrath: On the services side as I said I think it's something we're keeping a watch on but at the moment I don't see it as a trend, but we've obviously got a fairly active bidding cycle over the next two years and we will just have to see how that goes.

Andrew Gibb: Finally from me just on Australia. I know you mentioned about the various moving parts going into the second half, you mentioned obviously a big mining project. Is that progressing as planned in terms of the timetable please?

Andrew McNaughton: Absolutely. I was over there a few weeks ago and met the customer and there's an absolute commitment for this to move through into the next phase. Activities have already commenced on the ground. We are currently building a camp for more than 2,000 people for the overall construction of the mine and the railway line and so we anticipate there's nothing that would lead me to believe that's going to move in a different direction at the moment.

Andrew Gibb: Ok, that's great. Thanks guys.

Duncan Magrath: Thanks.

Operator: We will now take our next question from Stephen Rawlinson from Whitman Howard. Please go ahead.

Stephen Rawlinson: Good morning chaps. Just actually one from me just on the same area, hidden in there in support services, are you saying that the revenue in the third quarter was particularly strong in power transmission and local authority? Could you just give us a feel for what strong means in that context and secondly why you performed so well and what that might mean for margins?

Duncan Magrath: Sure. I think in terms of the local authorities it’s the start-up of new contracts I think earlier in the year I highlighted that transportation was slightly weaker but that was related to gaps in contracts so I think the pipeline of opportunities for local authority work remains out there. I think it’s a fairly competitive market but I think there are a number of opportunities in that local authority market. In terms of power transmission I think there is a large amount of activity going on at the moment. The revenue increase there is very specifically related to the projects we are currently engaged in. I think whether we are at the peak of that activity or whether there’s further to go I think is an interesting question particularly in relation to if there has been delays in the power generation market, there’s delays in the generation market, the requirement for the transmission obviously will have a knock-on impact, so I think we are at a very strong point in that cycle at the moment and we will just have to see how the spending plans going forwards change in that. So it has been a good quarter so just be slightly careful about extrapolating that growth into further growth as it were.

Andrew McNaughton: The only thing I’d add to that is alongside we tend to lump our work with National Grid. We announced at the beginning of the year the framework for the gas for National Grid. We have mobilised that one particularly well with National Grid and because of that we have seen early volumes flowing through into it. I would echo Duncan’s comment there that we shouldn’t herald that that’s a new level of expenditure. I think National Grid are reviewing their forecast plans not quite constantly but they keep them regularly under review, so we need to take that quarter by quarter if not half by half.

Stephen Rawlinson: Just on margins, is this normal margin levels that you have won this work at or have you had to shape that a bit in order to get the revenue growth?

Andrew McNaughton: No, it’s a normal piece of work.

Stephen Rawlinson: Ok, thanks chaps.

Andrew McNaughton: Ok.

Operator: As a reminder to ask a question that's *1 on your telephone keypad. We will now take our next question from Kevin Cammack from Cenkos. Please go ahead.

Kevin Cammack: Morning gents, three from me I think. Two points of clarification and then I would like a bit of help on Australia I suppose. Just firstly you've obviously got a few things going on in the discontinued line but I note you've made a slightly more negative comment on the German rail business than before. I don't necessarily ask for anything specific on Germany but can you give us any broad steer on what that line might look like at the end of the year on discontinued? Secondly just from a cash flow perspective the major settlement that's now before the courts or whatever, can you just give me a feel for in cash terms what sort of number we might be looking at as and whether that's in your budget or not in your budget? Really the last thing in Australia, am I right in thinking that from where you stood at the beginning of the year budget-wise you are now basically 20 million adrift of that target? I would like to know broadly what the revenue scale of the business actually is in Australia and again this may be a complete misconception on my part but I am presuming a sizeable chunk of 'revenue' is basically gross income if you're charging man hours out or time out, cost plus etc, because I am just slightly concerned at the scale of drift in the numbers and I suppose the secondary question to that is: is the Australian business in professional services measurably any different from the businesses that you have in other countries, in other words is there something operationally or structurally different or is simply the way the market has moved for you in that particular economy, would the same consequences therefore happen if similar things were experienced in other countries around the world?

Duncan Magrath: Ok, I will deal with the first ones and then roll into Australia and Andrew can pick that one up. Discontinued, at the half year we flagged up that we had lost £18 million in the German rail business. We thought we'd get back to a loss of £10 million for the full year and I suspect we are not going to get back to the loss of £10 million for the full year, so we're probably going to be closer to the half year number. That's the scale of the German point. In terms of the cash flow settlement I don't particularly want to quote a number but I am at the moment not assuming that we'll receive any cash this year, that's not in our year end settlement number. In terms of Australia it's round about a £200 million type revenue business in terms of the scale of it. In terms of the...I have forgotten what your follow-up question in relation to that was...

Andrew McNaughton: it was the scale of the issue.

Duncan Magrath: In terms of you said where we were against expectations, we're down £34 million year on year with the recent point. We did expect to be somewhat down but probably the scale against our original expectation is of the order of what is in excess of 20 million in terms of profitability. Your point about...professional services traditionally operates if you've got roughly 100 million of revenue there would be subcontractor costs on which we make no mark-up of about somewhere between 20 and 25 and so the net revenue number will be around about 75 of the 100 but then basically all you've got is people and property costs, so any reduction in that net revenue figure flows straight through to the bottom line...particularly if it's a pricing issue. I think what we're trying to flag up today is particularly the pricing in that market is difficult and that's really the impact, of a chunk of the impact on this year and next.

Andrew McNaughton: If I pick up your point, your final observation was is this something that we should be concerned about in other parts of the business? One of the features of the Australian business is actually the split I said earlier in terms of those three pieces to the business. The resource and mining sector, the order book to book and do is a much shorter period of time. It's also subject to significant potential for fluctuation. It's less so in a more traditional transportation type business where projects that are committed to are reasonably and particularly where they're in the public sector are reasonably well budget secure and therefore going to flow forward into delivery, so a lot of the stuff that is done in the resource and mining business, there's far more things like feasibility study and early work, so you can actually look at it and see that those parts of that business are quite different in nature and they don't repeat elsewhere in our business.

Kevin Cammack: Right. Under those circumstances one would imagine that your people costs are less fixed than they would be in the other businesses as you've described, if you've got a much more volatile business in terms of the revenue flow? Presumably you'd have a much higher content of non-directly employed, so in effect you use contract staff, but I am still slightly struggling as to...on the gross revenue line, the differential of that 34 million drop would imply that the fixed cost of the business is of the order of on a normal year would be comfortably over 50% cost of the business would effectively be fixed. Is that normal? I don't know.

Duncan Magrath: I think it's worth going back to what we said at August Kevin because to a certain extent when you get the revenue decline particularly some of these people may be working across multiple projects and you are selling people hours and if the projects disappear then you can't necessarily just...(a) it's a vital resource that you've got to sell which is people; and secondly if they are working across multiple projects then it's difficult to keep the utilisation up in that environment, so I think we obviously had a £21 million impact on the first half where the revenue came off and it's difficult to adjust the cost base. The impact we thought at the half year was going to be three in the second half – it's more likely to be 13 as we talked about today, but it is a reduced impact as some of the cost saving measures come through, but in relation to your point about the contract staff, it's an interesting point as to whether you get a more flexible labour force but of course what you do lose is the client when you're bidding is expecting you to turn up with some experienced people that are on your books. They didn't expect to award you a contract and then say "By the way I will go out and find somebody who can do it for you".

Kevin Cammack: Sorry to labour this but just one follow-up to that, if theoretically you lost another say 15% of revenue next year, would you have that same relationship...the relationship we've looked at this year in terms of profit to revenue? Would that same relationship exist? So in other words if you were 20 million down let's say on revenue next year, would you still be 10% plus down on target profit?

Duncan Magrath: I think it depends why to be honest, because if it's pricing, if it was 10% across the board that would be a difficult...

Kevin Cammack: Yes, you're going to lose that I guess whatever aren't you? Fair point, yes.

Duncan Magrath: It will be a mixture of pricing and volume I suspect and so it will really rather depend. Clearly some of our people have skills that can be transferrable between the different sectors and certainly utilising people in different areas is one of the things the team has been doing to try and (a) keep our good people and (b) cope with some of the issues, but...

Kevin Cammack: I suppose the obvious thing to do is for me to rephrase that. When you talk about a difficult market next year, likely to be lower again in revenue terms, at the moment is the pressure point price or volume?

Andrew McNaughton: I will answer that in a slightly different way. What we've done is we've said the reduction in volume is going to flow through into Q4 and therefore it's likely to be at that lower base. The assumption that we've taken there is we have taken our resource and mining business and the utility side down to quite a modest expectation for 2014 and the predominance is in our transportation side which has remained reasonably strong. Whilst we have seen margin pressures in that area, the volume piece is probably less likely as we go forward into 2014 and there we feel that's reasonably stable in that particular market, but what we're saying is we are reflecting the reduction that we've seen so far in the first three quarters flowing forward into the fourth in terms of scale of business.

Duncan Magrath: Australia will be a drag on the overall margins.

Kevin Cammack: Ok, thanks very much.

Andrew McNaughton: Thanks Kevin.

Operator: We will take the next question from Chris Moore from Berenberg. Please go ahead.

Chris Moore: Hi there. Two quick questions just on the UK regional business. Firstly if you could just sort of explain which parts of the UK you are seeing have the slight improvement and which parts are still depressed and not improving? Then secondly if you could just give us an idea of how bid margins change in that regional business versus six months and a year ago?

Andrew McNaughton: I think we noted today that we're seeing the...clearly the first thing if you take the UK construction business as a whole rather than just a comment on our business first of all, the biggest pick-up in activity we are seeing is in the housing market and therefore that's flowing over, the bit that we are seeing flowing over into that is our civil engineering, regional civil engineering business where infrastructure associated with the house building market is picking up. From a sort of regional perspective we are seeing the areas that we said earlier in the year which are remaining strong which was certainly Scotland and the North West and also areas in and around London are still holding up well and it looks like good prospects there. If there's areas and I mentioned at the half year there was an area that looks under some stress it remains the South West and that's absolutely normal in the cycle as we can see there, but certainly those are the sort of regions and sectors that are moving at the moment.

In terms of margins I think we have said in the note today that we are seeing a slight improvement in the trend there but I would come back to my earlier comment that we generally feel confident that we are not going to see the impact that we had in the first half of the year this year.

Duncan Magrath: I think Chris it's a bit like the American business where you're going to have to see a pick up in the market in terms of volumes before you actually see an improvement in margins. A general market improvement in margins will come somewhere down the track. I think in relation to the UK regional business I think the trends that we've got going on are...we are seeing some as Andrew said some strength in terms of the volume. I think in term of market margin recoveries I think it will be the same as the US, it will have to be a sustained increase of volumes before they come through. I think we need to be cautious about the costs that we picked up earlier in the conversation as to how they may impact margins. On the flip side I think we feel we are internally doing a better job of the selectivity on biddings to improve the margins that we achieve, so I think if you summed it all up I don't think there is a market recovery in margins at the moment and you just need to think of those other factors that will be driving the changes in the margins that we would eventually record and clearly all of that is dependent on continuing to execute because actually one of the biggest things is the execution.

Chris Moore: That's really helpful, thanks very much.

Operator: That will conclude today's Q&A session. I will now hand the call back over to Andrew McNaughton for concluding remarks.

Andrew McNaughton: Ok, well thanks very much everybody for your questions this morning and for joining the call. As always Duncan, Basak and myself will be available throughout today so if you've got any more questions then please feel free to come back to us.

Operator: That will conclude today's conference call. Thank you for your participation ladies and gentlemen, you may now disconnect.

END

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